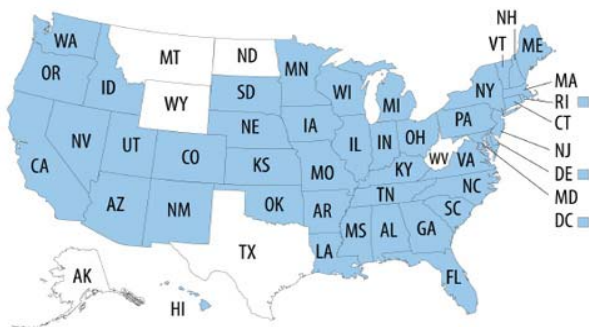


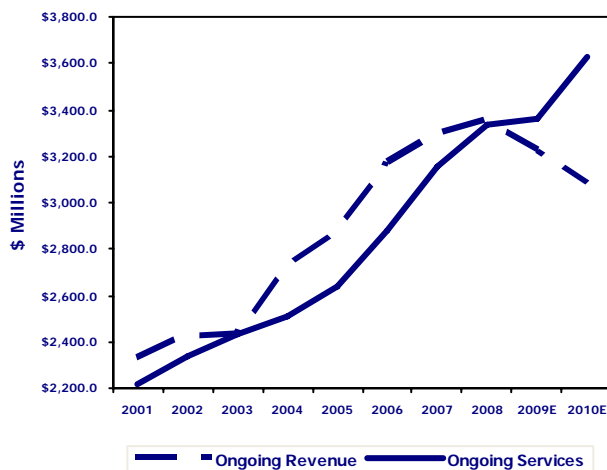
GOVERNOR'S POLICY OVERVIEW

Governor Minner's Fiscal Year 2010 Recommended Operating Budget is presented during a time of a dramatic slowdown in the national economy that is affecting state governments throughout the country. According to the Center for Budget and Policy Priorities, over 40 states (in grey) are projecting budget deficits for either the current and/or ensuing fiscal year.



The State of Delaware is not immune to this downturn. Since June 2008, the Delaware Economic and Financial Advisory Council (DEFAC) financial forecasts have reduced revenue estimates by \$226.1 million for Fiscal Year 2009 and by \$456.3 million for Fiscal Year 2010. Concurrently, while revenue estimates have fallen, the demand for state services, oftentimes the critical safety-net during an adverse economy, continue to rise. As such, policy-makers in Delaware are currently confronted with the dual challenge of not only closing a budget gap for Fiscal Year 2009, but also making the difficult choices associated with solving an unprecedented projected shortfall of \$556.8 million for Fiscal Year 2010.

The following graphic illustrates the extent to which ongoing revenues are projected to be less than ongoing appropriations for Fiscal Year 2010.



Governor Minner's response to this challenge has been proactive, swift and focused on maintaining the prudent fiscal practices that have been the hallmark of Delaware's AAA bond rating.

For Fiscal Year 2009, the Governor has implemented a series of management controls to curtail spending with the focus of ending the fiscal year in a positive unencumbered cash position while maintaining the State's budget reserve account. To date, \$55.1 million in savings have been generated to begin to close the forecasted shortfall. It is anticipated that additional savings will be generated by continuing the management controls currently in place, including the state's hiring freeze and review of purchase orders over \$2,500. Savings will also be generated by working with the General Assembly and next Administration on a comprehensive review of existing capital projects and by implementing measures contained within the seven percent mid-year budget reduction options requested of nearly every agency in the State.

Further, the proposed Fiscal Year 2010 financial plan is built upon a responsible, multi-faceted strategy to begin to prudently address the projected shortfall. This strategy incorporates a number of principles, namely:

- Identifying and protecting, to the extent possible, core government services;
- Reducing expenditures through base budget reductions, managing growth in entitlement and discretionary programs, and by re-engineering services; and
- Maximizing special funds.

The Governor's proposed Fiscal Year 2010 operating budget totals \$3,063.5 million, a decrease of 8.9 percent over the Fiscal Year 2009 Operating Budget. This budget, in combination with the Recommended Capital Budget and recommended set aside for Grants-In-Aid, is within the constitutionally mandated 98 percent limit on appropriations.

Included in the Governor's proposed budget are recommendations to close \$190.0 million of the projected Fiscal Year 2010 shortfall. This amount results from reduction efforts which include:

- \$30.8 million in base budget reductions;
- \$128.1 million in reductions to mandated costs and limiting growth in expenditures; and
- \$31.1 million in maximizing the usage and allocation of special funds.

However, the remaining shortfall is of such magnitude and complexity that the resolution must be carefully addressed through policy debate among the General Assembly and next Administration. The management

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controls implemented by Governor Minner included requesting agencies to develop 15 percent budget reduction options for Fiscal Year 2010. Some of these options are proposed in the Recommended Operating Budget. The majority of the options, though, will impact considerably the way our public schools and institutions of higher education operate; will affect the level of services provided to our most at-risk populations; and will require careful analysis of personnel costs throughout state government.

Accordingly, the Governor has recommended a series of Strategic Reduction/Investment Targets to provide a framework for consideration of additional budget reductions as compared to increased revenue, as budget hearings and deliberations continue for the remainder of the fiscal year. This includes agency specific Strategic Reduction/Investment Targets as well as targets for statewide Personnel Costs, Health and Social Services Assistance Programs, Public Education, and Reengineering/Higher Education initiatives. These targets represent difficult choices for policy-makers but are designed to help ensure Delaware maintains its prudent fiscal practices that have been the hallmark of its AAA bond rating, including, but not limited to, appropriating at 98 percent of available resources, maintaining the budget reserve account, and addressing future liabilities.

Throughout Governor Minner's administration, many accomplishments have occurred by focusing on the following policy priorities:

- Schools that set high standards and prepare children for college, work and life;
- Ensuring the health, safety and self-sufficiency of every Delaware family;
- Economic development that nurtures and maintains high quality jobs;
- Creating a Livable Delaware that strengthens communities and preserves the quality of life for all Delawareans, and;
- A state government that is well-managed.

These accomplishments have included, but are not limited to, the implementation of full-day Kindergarten, providing math and reading specialists in schools, funding cancer treatment and screenings, increasing the number of troopers in the Delaware State Police, and implementing comprehensive foster care reform.

The development of the Fiscal Year 2010 financial plan, however, represents a landmark time for the State of Delaware. The decisions that policymakers will need to consider will be difficult but are of critical importance as they will position the state financially for years to come.

Bipartisanship must be combined with constructive dialogue on the future of state services offered to Delawareans. The Governor's proposed Fiscal Year 2010 operating budget represents a prudent approach from which policymakers can consider these challenges during a period of uncertain financial times.